

By: Chairman Superannuation Fund Committee
To: County Council – 16 March 2017
Subject: **LOCAL GOVERNMENT PENSION SCHEME POOLING INTER-AUTHORITY AGREEMENT**
Classification: Unrestricted

Summary: To agree the inter-authority agreement for the Council to participate in the ACCESS pool.

FOR DECISION

INTRODUCTION

1. In the summer 2015 budget the Chancellor of the Exchequer announced the Government's intention to enforce the pooling of LGPS investments. The criteria published in November 2015 required the pools to have a minimum of £25bn of assets. The drivers for the changes were to reduce cost and increased investment in infrastructure.

CURRENT POSITION

2. This Council charges the Superannuation Fund Committee with the management of the Superannuation Fund. The Fund is now valued at £5.3bn, has 120,000 scheme members and over 500 participating employers. The Kent Fund has achieved good investment returns and pays some of the lowest investment manager fees of any of the 89 LGPS funds. Whilst the Committee believes that there were other ways of achieving the Government objectives it does welcome the fact that the only change in its role is that it will not appoint investment managers directly, but it will have a strong say in who the managers are. It also welcomes the fact that the highly successful £500m direct property portfolio will remain outside the pool.
3. In late 2015 / early 2016 discussions took place with other local County Council funds and in July 2016 the ACCESS (A Collaboration of Central, Eastern and Southern Shires) was established consisting of:

| | |
|----------------|------------------|
| Cambridgeshire | Kent |
| East Sussex | Norfolk |
| Essex | Northamptonshire |
| Hampshire | Suffolk |
| Hertfordshire | West Sussex |
| Isle of Wight | |

The wider membership was required to achieve the scale required.

4. Chairmen of the 11 Fund committees have been meeting monthly and officer representatives more frequently. Government require that a pool is legally established by April 2018 based upon a Financial Conduct Authority (FCA) regulated Collective Investment Vehicle (CIV).
5. The ACCESS pool has proved to be the right pool for the Kent Fund. All 11 Funds believe in the sovereignty of the underlying Funds and the need to keep as much decision making locally and that decisions are made for the benefit of scheme members, pensions and employers. There are eight pools in total and some of these are looking to set up investment managers and take decision making away from the underlying Funds.
6. The ACCESS Chairmen believe that the Government's objectives can be achieved without the significant additional costs of the FCA regulated investment vehicle through collaborative joint procurement. This issue has been discussed with Marcus Jones MP the Local Government Minister. The Minister's position is that he does not accept that the collaborative joint procurement approach does meet the Government's objectives. At their meeting on 15 February the Chairmen agreed that they would proceed with the procurement of a FCA regulated CIV operator but they still wish to pursue the collaborative joint procurement approach further. This report is therefore written to allow the inter-authority agreement to apply on either the FCA regulated CIV operator or the collaborative joint procurement approach.

INTER-AUTHORITY AGREEMENT

7. The Monitoring officers of Governance the 11 Councils assisted by Eversheds have been tasked by the Chairmen in producing a legally binding Inter-Authority Agreement. The governing principles for the agreement agreed by the Chairmen are:
 - working collaboratively,
 - all Councils will have an equitable voice,
 - avoiding unnecessary complexity, and
 - operating economically applying VFM considerations.
8. It is proposed that the Pool will be governed by a Joint Committee constituted under S101 of the Local Government Act 1972 and made up of one elected councillor chosen by each Council from their pension committees. It is proposed that the Joint Committee will be "hosted" by Kent County Council.

COST SHARING

9. It is the aim of the ACCESS Pool that costs are shared equitably between the member funds. Some costs will be shared equally between the member funds, or costs will be shared according to the value of investments by each fund as follows:

Costs to be shared equally between the member funds:

- The pool establishment costs including strategic and technical advice, legal advice, project management costs and the costs associated with running either the procurement process to appoint a CIV Operator or to set up a collaboratively procured framework of investment managers.
- Under the CIV Operator pool model, any set-up costs charged by the Operator for the overall creation of the sub-fund structure.
- The ongoing costs of managing and governing the pool including the host authority's costs of hosting the Joint Committee and providing the secretariat function, the cost of any external advice commissioned by the Joint Committee and any re-procurement processes for either the CIV Operator or investment manager framework.

Costs in relation to funds' investments will be shared according to the value of each fund's investments, either:

- As charged by the CIV Operator for the sub-funds that each fund is invested in; or
- Charged directly to the funds by Investment Managers they have invested with through Collaborative Joint Procurement.

Other costs will not be shared and will be borne by the fund that they are incurred by, which includes:

- Each fund's costs of participating in the pool, such as attendance at meetings.
- Any transition costs of moving assets to or within the pool.

WITHDRAWAL AND TERMINATION

10. Any fund can withdraw from the IAA and therefore the ACCESS Pool by giving 12 months notice to expire on 31 March. Following the signing of the IAA, any fund that wishes to withdraw from the pool will be liable for its share of the costs (not relating directly to investments) for the remainder of the contract period of the CIV Operator or in the case of Collaborative Joint Procurement until the commitment period for any open frameworks expires, unless otherwise agreed by the Joint Committee.

OTHER PROVISIONS

11. The IAA will cover a number of other standard areas including dispute resolution, information and confidentiality, data protection, freedom of information, equal opportunities, and change in identity of Administering Authorities.

TIMESCALES

12. The Government requires LGPS funds to begin transferring their investments into pools by no later than April 2018. In order for the ACCESS Pool to meet this deadline, the procurement processes will need to commence in or around April 2017. The ACCESS Pool has committed to move forward in a way that will enable either proposal to meet the Government's April 2018 deadline.
13. It is therefore necessary to seek decisions now to enable establishment of the Joint Committee and commence the procurement processes for either proposal. To achieve this, it is necessary for all of the ACCESS Authorities to make decisions at Council meetings in February / March 2017.
14. This approach was endorsed by the Superannuation Fund Committee at its meeting on 10 February.

RECOMMENDATION

15. Council is asked to agree:
 - (1) That authority is delegated to the Corporate Director Finance and Procurement, in consultation with the Chairman of the Superannuation Fund Committee to agree the approach to pooling that County Council will take, based upon the Government's responses to the two options put forward by the ACCESS Pool and the views of the local authorities that make up the ACCESS Pool.
 - (2) If the Corporate Director Finance and Procurement, in consultation with the Chairman of the Superannuation Fund Committee agrees to adopt pooling based on the use of a CIV Operator, then authority is delegated to the Corporate Director Finance and Procurement in consultation with the Chairman of the Superannuation Fund Committee, to finalise and agree the terms of an IAA to implement this model, and the Council resolves to delegate the functions to the Joint Committee as specified in Appendix 2 with effect from the date of execution of the IAA;
 - (3) If the Corporate Director Finance and Procurement, in consultation with the Chairman of the Superannuation Fund Committee agrees to adopt pooling based on Collaborative Joint Procurement, then authority is delegated to the Corporate Director Finance and Procurement in consultation with the Chairman of the Superannuation Fund Committee to finalise and agree the terms of an IAA to implement this model and the Council resolves to delegate the functions to the Joint Committee as specified in Appendix 3 with effect from the date of execution of the IAA; and

- (4) That authority is delegated to the General Counsel to make consequential amendments to the County Council's Constitution to reflect the agreed approach to pooling and the creation of the Joint Governance Committee. Any amendments to the Constitution will be reported to a future meeting of the County Council.

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